

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MADISON COUNTY CLERK

For The Year Ended
December 31, 2006

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total receipts of \$18,898,771, which was an \$841,364 increase from the prior year. Except for reimbursed expenses in the amount of \$28,054 the clerk paid 25% of receipts to the Madison County Fiscal Court in the amount of \$369,447. This was a decrease of \$22,047 from the prior year. In addition, disbursements from the 75% operating fund increased \$183,224.

Debt Obligations:

The County Clerk was committed to a lease and service agreement. The remaining balance of the agreement totaled \$141,383 as of December 31, 2006.

Report Comments:

- | | |
|---------|--|
| 2006-01 | The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved |
| 2006-02 | The County Clerk Should Prohibit Cashing Personal Checks |
| 2006-03 | The County Clerk Should Seek Additional Training To Ensure Daily Responsibilities Are Performed |
| 2006-04 | The County Clerk Should Implement Additional Controls To Ensure Adequate Segregation Of Duties |
| 2006-05 | The County Clerk Should Review And Approve All Purchase Orders Prior To Submission For Payment To Finance And Administration Cabinet |
| 2006-06 | The County Clerk Should Ensure All MARS Reports Are Reconciled On A Monthly Basis |
| 2006-07 | The County Clerk Should Have Proper Supporting Documentation For All Expenditures |
| 2006-08 | The County Clerk Should Maintain Supporting Documentation For Year-End Accounts Receivable Balance |
| 2006-09 | The County Clerk Should Prohibit The Use Of Public Funds For Personal Purposes |
| 2006-10 | The County Clerk's 75% Fund Had A \$623,681 Deficit Balance At Year-End |
| 2006-11 | The County Clerk Should Have A Written Agreement To Protect Deposits |

Deposits:

The County Clerk did not have a written collateral security agreement with their depository institution. Therefore, the County Clerk's deposits were exposed to custodial credit risk as follows:

Uninsured and Unsecured \$498,499

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
The Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable Kent Clark, Madison County Judge/Executive
The Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved
- 2006-02 The County Clerk Should Prohibit Cashing Personal Checks
- 2006-03 The County Clerk Should Seek Additional Training To Ensure Daily Responsibilities Are Performed
- 2006-04 The County Clerk Should Implement Additional Controls To Ensure Adequate Segregation Of Duties
- 2006-05 The County Clerk Should Review And Approve All Purchase Orders Prior To Submission For Payment To Finance And Administration Cabinet
- 2006-06 The County Clerk Should Ensure All MARS Reports Are Reconciled On A Monthly Basis
- 2006-07 The County Clerk Should Have Proper Supporting Documentation For All Expenditures
- 2006-08 The County Clerk Should Maintain Supporting Documentation For Year-End Accounts Receivable Balance
- 2006-09 The County Clerk Should Prohibit The Use Of Public Funds For Personal Purposes
- 2006-10 The County Clerk's 75% Fund Had A \$623,681 Deficit Balance At Year-End
- 2006-11 The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 15, 2007

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services		\$	32,979
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,771,756	
Usage Tax		9,415,980	
Tangible Personal Property Tax		5,649,411	
Other-			
Fish and Game Licenses		9,233	
Marriage Licenses		22,253	
Occupational Licenses		2,803	
Miscellaneous		29,278	
Deed Transfer Tax		406,619	
Delinquent Tax		968,025	18,275,358
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		48,927	
Real Estate Mortgages		173,846	
Chattel Mortgages and Financing Statements		205,700	
All Other Recordings		86,987	
Affordable Housing Trust		41,346	
Charges for Other Services-			
Copywork		28,054	584,860
Other:			
Miscellaneous			1,082
Interest Earned			4,492
Total Revenues			\$ 18,898,771

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,324,664

Usage Tax 9,130,363

Tangible Personal Property Tax 1,957,453

Licenses, Taxes, and Fees-

Delinquent Tax 112,946

Legal Process Tax 63,619

Affordable Housing Trust 57,996

Miscellaneous 11,324 \$ 12,658,365

Payments to Fiscal Court:

Tangible Personal Property Tax 385,351

Delinquent Tax 74,186

Deed Transfer Tax 386,288 845,825

Payments to Other Districts:

Tangible Personal Property Tax 3,060,796

Delinquent Tax 547,758 3,608,554

Payments to Sheriff

5,890

Payments to County Attorney

144,641

Other Charges-

Refunds 13,109

Bank Charges 55

Miscellaneous 943 14,107

Total Expenditures \$ 17,277,382

Net Revenues 1,621,389

Payments to State Treasurer:

75% Operating Fund 1,251,374

25% County Fund 369,447 1,620,821

Balance Due at Completion of Audit \$ 568

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Restated Fund Balance - January 1, 2006	\$ (342,260)	\$ 0	\$ (342,260)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,251,374		1,251,374
Fees Paid to State - County Funds (25%)		369,447	369,447
Total Funds Available	909,114	369,447	1,278,561
<u>Expenditures</u>			
Payments to Madison County Fiscal Court		369,447	369,447
Personnel Services-			
County Clerk's Statutory Maximum	89,153		89,153
County Clerk's Expense Allowance	3,600		3,600
House Bill 810 Training	3,301		3,301
Deputies' Salaries	837,046		837,046
Employee Benefits-			
Employer's Share Social Security	65,093		65,093
Employer's Share Retirement	119,241		119,241
Employer's Paid Health Insurance	88,135		88,135
Contracted Services-			
Copy Machine & Maintenance	22,838		22,838
Miscellaneous Equipment Agreements	26,591		26,591
Tax Bill Preparation	662		662
Materials and Supplies-			
Office Supplies	15,179		15,179
Misc Office Expense	39,427		39,427
Office Furnishings	9,200		9,200
Office Repairs	1,650		1,650

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Books and Maps	\$ 25,060	\$ 0	\$ 25,060
Travel	7,127		7,127
Dues And Conventions	2,900		2,900
Postage	1,655		1,655
Miscellaneous	10,041		10,041
Computer Equipment and Software	164,896		164,896
Total Expenditures	1,532,795	369,447	1,902,242
Fund Balance - December 31, 2006**	<u>\$ (623,681)</u>	<u>\$ 0</u>	<u>\$ (623,681)</u>

** The Madison County Fiscal Court presented a check to the Kentucky State Treasurer on March 15, 2007 to satisfy the deficit 75% account balance.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The Attorney General issued a letter, which stated that some revenues of the fee official offices could be considered reimbursed expenses.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). The County Clerk did not have a written collateral security agreement with their depository institution. Therefore, on December 31, 2006, the County Clerk's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured - \$498,499

Note 4. Lease

The Office of the County Clerk was committed to a hardware, software and maintenance lease agreement with Software Management. The total balance of the agreement was \$141,383 as of December 31, 2006.

Note 5. Prior Period Adjustment

The prior year ending balance of \$(391,591) had to be restated to \$(342,260) as a result of accounting for December 2005 payroll twice, in the amount of \$47,097. There was also an adjustment to include the petty cash amount of \$2,234 that was omitted from the prior year calculation.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
The Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Madison County Clerk for the year ended December 31, 2006, and have issued our report thereon dated November 15, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-08 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider significant deficiencies 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-08 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2006-09, 2006-10, and 2006-11.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 15, 2007

COMMENTS AND RECOMMENDATIONS

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2006-01 The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved

During our audit, we noted that the County Clerk did not perform monthly reconciliations on his imprest cash account. These reconciliations should be performed in a timely manner and be properly maintained. We also found that the County clerk was not maintaining a receipts and disbursements ledger on the Imprest Cash Account. The Uniform System of Accounts requires that the County Clerk prepare and maintain such ledgers.

We also noted that imprest cash vouchers were not submitted monthly as required for the petty cash account. Some vouchers contained several months at a time; therefore, making it difficult to maintain the fund balance that was established initially. As outlined in the Finance and Administration Cabinet's Financial Operations Manual for Counties with population over 70,000, the petty cash fund should be replenished once a month.

Finally, we found that the County Clerk was not maintaining copies of imprest cash and travel vouchers for their own records. The County Clerk's staff was obtaining copies of the vouchers and the supporting documentation from FAC when we requested copies.

We recommend that the County Clerk perform monthly reconciliations on all bank accounts, that he maintain a receipts and disbursements ledger for Imprest Cash, that he submit replenishment vouchers monthly as required, and that he maintain copies of all Imprest Cash and travel vouchers submitted to FAC for his own records.

County Clerk's Response: The imprest cash account is a small account and is only used for sudden expenses. The account is now being reconciled monthly and by someone other than the clerk for segregation of duties.

Again, this account is rarely used and vouchers had been submitted quarterly. In our original training with FAC, we were told to submit them as needed. I wish they or the auditors had mentioned over the last 4 years that was not correct. We now submit monthly vouchers for payment.

We had misplaced one voucher in error; however, when we called FAC to get a copy of the original, they too had misplaced it.

The clerk does maintain vouchers. There were a couple of vouchers that had to be obtained from FAC for the auditors out of the many that were on file.

2006-02 The County Clerk Should Prohibit Cashing Personal Checks

We noted several instances where the County Clerk cashed personal checks, from the County Clerk's official funds. By allowing the cashing of personal checks, the integrity of the drawer is affected and daily receipts are not being deposited intact as required. In order to strengthen internal controls over cash and receipts, we recommend that the County Clerk stop the practice of cashing personal checks immediately.

County Clerk's Response: A memo was generated immediately to all employees; we no longer allow anyone to cash a check in the office.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2006-03 The County Clerk Should Seek Additional Training To Ensure Daily Responsibilities Are Performed

During the course of the audit, it was brought to the auditor's attention that certain job responsibilities were not performed due to the lack of training and knowledge. The lack of training was preventing the bookkeeper from performing certain job duties and the County Clerk lacked the knowledge and training to assist. The auditor noted the following instances that were a result of this insufficient training and knowledge:

- The MARS 2550 reports that are provided to them by the Finance and Administration Cabinet (FAC) were not reconciled to their ledgers and reviewed for accuracy.
- A review of invoices before submission to FAC was not being performed appropriately. This resulted in numerous duplicate payments.
- The Imprest Cash account was not properly reconciled, vouchers were not maintained, and the account was used for something other than what it was established for.

We recommend the County Clerk attend and provide appropriate training for office staff, as needed. The County Clerk should ensure that all staff has the knowledge and skills to adequately perform job responsibilities. Failure to immediately take corrective action places the financial accountability of the office at high risk. This matter is being referred to the Governor's Office for Local Development and FAC.

County Clerk's Response: After inception of Madison County into the mandated over 70,000 in population in January 2003, Clerk and Bookkeeper went to the FAC for training. We have been audited for the past 4 years and our audits have been pristine. Our internal books have always been within a few dollars of the 18 to 20 million dollars in revenue. We sent our invoices to FAC for payment and in 2006 had only 3 duplicate payments that were corrected. However, after numerous requests to FAC over the last year for additional training, the clerk and bookkeeper were finally granted a training session with FAC before this audit was completed.

Auditor's Reply: The County Clerk's audit report for 2005 revealed a deficit balance in the 75% account of \$391,591. The audit report included three audit comments, none of which has been resolved and all of which have been repeated in the current audit.

2006-04 The County Clerk Should Implement Additional Controls To Ensure Adequate Segregation Of Duties

During the planning of the audit, it was noted that the County Clerk lacked adequate segregation of duties over receipts and disbursements. The bookkeeper prepares the deposit, gives it to the bank, posts to the ledgers, and performs the monthly bank reconciliation. The auditors recommend the County Clerk consider implementing some of the following additional controls:

- County Clerk should recount deposit, agree to the deposit ticket, and initial to show review
- County Clerk should agree daily bank deposit to receipts ledger and initial to show review

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (CONTINUED)

2006-04 The County Clerk Should Implement Additional Controls To Ensure Adequate Segregation Of Duties (Continued)

- Someone other than bookkeeper should prepare bank reconciliation and statement remain unopened until that individual performs reconciliation
- County Clerk should review purchase orders and invoices before submitting to FAC for payment

County Clerk's Response: Since this audit we now have a second person to review and reconcile. It should also be noted that most if not all offices fall under this "lack of segregation of duties".

2006-05 The County Clerk Should Review And Approve All Purchase Orders Prior To Submission For Payment To Finance And Administration Cabinet

During expenditure testing, the auditor noted the County Clerk was not properly authorizing purchase orders. The auditor noted that a signature stamp was being utilized instead of the County Clerk actually reviewing and approving the expenditure. By allowing the bookkeeper to use a signature stamp to authorize purchase orders, this negates an effectively designed internal control procedure. We recommend that the County Clerk review all purchase orders, the supporting documentation, and properly authorize his approval with his own signature. A signature stamp should never be utilized, even in the absence of the County Clerk.

County Clerk's Response: The signature stamp has been eliminated and now all purchase orders are personally signed by the county clerk.

2006-06 The County Clerk Should Ensure All MARS Reports Are Reconciled On A Monthly Basis

During our audit, it was noted that Management Administrative Reporting System (MARS) reports were not being properly reviewed, reconciled, and maintained. The auditor was informed that the reports were not utilized in any form and simply filed away. Our audit discovered several errors in the MARS reports that could have been caught and corrected, if the County Clerk reconciled them. These errors included two charges totaling \$1,572 to the Madison County Clerk's account that were not for his account, but for another county. Also one month's 25% fees totaling \$30,020, that should have been given to the county, was put in the County Clerks 75% account, therefore shorting the amount paid to the County. Based upon further testing, the auditor found that some of the reports were not even maintained on file by the County Clerk. We recommend that the County Clerk maintain all monthly reports and perform a reconciliation of that report to the ledgers to ensure accuracy.

County Clerk's Response: MARS reports are all reconciled for 2007 and we are aware of the \$1,572 error. It was actually one error of \$786 charge for Fayette County and rather than FAC debiting Fayette they debited Madison County; then instead of crediting us they debited again for a total of \$1,572.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

2006-07 The County Clerk Should Have Proper Supporting Documentation For All Expenditures

During our audit we found the County Clerk was drafting invoices using personal stationary to pay some expenditures. The County Clerk was preparing a bill for a service that was being provided by individuals and then paying them based upon that invoice. The County Clerk should obtain invoices from the actual vendor or individual providing the service instead of creating an invoice for them. We recommend the County Clerk obtain invoices from vendor or individual for submission of payment and not create their own invoices.

County Clerk's Response: We have used contractors in the past they didn't have invoices. The clerk would use a generic invoice and submit it because they lacked a proper invoice. All invoices were authenticated by the clerk.

Auditor's Reply: The invoices prepared by the County Clerk's office were printed on the County Clerk's letterhead with no indication by signature or otherwise that the vendor had ever seen it. This does not represent an acceptable presentation for payment by a third party.

2006-08 The County Clerk Should Maintain Supporting Documentation For Year End Accounts Receivable Balance

During the course of the audit, the auditor noted that the County Clerk was not maintaining proper supporting documentation for the year-end accounts receivable balance. The system that maintains this information does not support that amount after adjustments have been made; therefore, the County Clerk must capture the year-end amount and retain a copy of that report for future referencing. We recommend that the County Clerk capture the year-end balance for accounts receivable and maintain that in their files.

County Clerk's Response: It is not a problem to capture year- end amounts. Out of the over \$18 million in revenue we were only off \$16.

Auditor's Reply: The auditors were unable to verify the accounts receivable balance at year-end as the County Clerk's records contained no accounts receivable balance to tie.

STATE LAWS AND REGULATIONS:

2006-09 The County Clerk Should Prohibit The Use Of Public Funds For Personal Purposes

During the course of the audit, it was noted that the County Clerk wrote a check out of the imprest cash account to pay himself for training incentive that would not have been paid via payroll from the Finance and Administration Cabinet until the following month. The money was personally needed early and removed from the account in June.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2006-09 The County Clerk Should Prohibit The Use Of Public Funds For Personal Use
 (Continued)

The County Clerk received the training incentive payment from the Finance and Administration Cabinet in July but did not deposit the funds back into the imprest cash account until December. As a result of the above transaction, the County Clerk did not have enough money in the imprest cash account to pay election workers in November and required a \$2,669 transfer of fee account funds to the imprest cash account to cover payments to election workers.

We recommend the County Clerk use the imprest cash account for official business only.

County Clerk's Response: I in no way believe I've used public funds for personal use. This is a statutory allowed training incentive. I'd been approved for the payment in April, and had been told by FAC I would receive the check within 2 weeks. In August when I was taking my children on vacation I had still not received the check; I called FAC and the controller at that time apologized for their error. She told me to write the check out of my imprest account, even calling me back with the correct amount to write it for. She has since retired, but has told me over the phone she remembered giving me permission. I do not agree with this being completely the fault of the clerk and would never do anything wrong with public funds.

Auditor's Reply: The auditor obtained a copy of the letter from the Governor's Office for Local Development acknowledging that the County Clerk completed the required training hours and the training incentive amount due the County Clerk. The letter is dated June 22, 2006. The payment was made by the Finance and Administration Cabinet to the County Clerk on July 15, 2006. This payment should then have immediately been repaid to the imprest cash account by the County Clerk instead of waiting until December to make the repayment. The personal use of public funds occurred from July until the repayment finally occurred in December.

2006-10 The County Clerk's 75% Fund Had A \$623,681 Deficit Balance At Year End

The County Clerk's 75% operating fund had a deficit balance of \$623,681 as of December 31, 2006. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund had to be settled at the end of the County Clerk's term, which ended December 31, 2006. The Fiscal Court presented a check to the Kentucky State Treasurer on March 15, 2007, for the deficit balance.

County Clerk's Response: This is not actually a deficit. The county receives 25% of all revenue generated from my office. Due to office expenses, I must receive back some of the 25% in order to operate the office. The total amount received by Fiscal Court over my 4 year term was \$1,555,727.34; out of this they paid \$623,681.40 back, so they actually made \$932,045.94 from the County Clerk's office for this term.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2006-11 The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 31, 2006, the County Clerk had bank deposits of \$598,499; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,422,750. Even though the County Clerk obtained sufficient collateral of \$1,422,750, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: We have a written agreement for 2007 and thought we had one for 2006. The Clerk's office had more than sufficient collateral for funds.

